HHI-Sponsored Sessions on Complexity Economics, Data Sources and Research Methods
2012 ARES Annual Meeting

HHI had two program slots at the ARES meetings devoted to complexity economics, data sources and research methods. The first panel was chaired by Norm Miller with presentations by Jim Follain, Grant Thrall, Anthony Guma (filling in for Jay Spivey of CoStar) and Norm Miller (filling in for Mike Sklarz). Jim discussed his conclusions from reading Nassim Nicholas Taleb's book, *Black Swan*. He emphasized that it was not merely unexpected events Taleb was describing but sloppy empirics or biases in how we approached our work. Jim also mentioned that we all needed a great deal more humility in admitting what we knew ahead of time and on the limits of our own abilities and influence.

Dr. Maury Seldin of HHI, speaking at one of the HHI-sponsored sessions at ARES in April 2012.

Norm presented some work with Jim and Mike on housing price data indices that showed how distorted a picture of reality one gets when aggregating large geographic markets or when not adjusting for the biases inherent in the data. Individual perspectives can now be analyzed with the newest data, but we are in a world that seeks generalizations. Grant Thrall continued the discussion on geo-spatial analysis and the importance of correctly defining markets. A lively discussion with the attendees followed.

The second session was chaired by Jeff Fisher and included presentations by Stephanie Rauterkus, Jim Follain, Roger Brown (joint work with Michael Young), David Wyman (joint work with Maury Seldin and Elaine Worzala), Michael Seiler (joint work with Andrew Collins and Nina Fefferman), and Larry Wofford (joint work with Mike Troilo). Stephanie and Jim presented a research review and consideration of alternative methodologies to deal with the complexity of real estate markets. This paralleled the presentation by David Wyman on various types of models such as agent based modeling that may be employed when trying to understand and forecast market trends.

Jim emphasized the recent review by Andrew Lo where he identified a dozen studies prior to the housing crash, looking for insights and an understanding of what experts knew ex ante. (See “Fear, Greed, and Financial Crises: A Cognitive Neurosciences Perspective,” by Andrew W. Lo, First Draft: August 28, 2011, Latest Revison: October 12, 2011) Jim also discussed the latest book by David Kahneman, *Thinking, Fast and Slow*, and the many influences on this book which incorporate emotions and psychology into economics and decision making. Those convinced of the work of Thaler, Taleb and Kahneman and similar writers must now question their training in efficient and rational markets and models which presume such behavior. *(Cont. on page S-2)*

The work of Roger Brown on risk analysis and bubbles illustrates so elegantly how we tend to use simplified and often biased models because of the momentum of our shared methods and history.

Mean variance risk analysis without much emphasis on the importance of fat tails and the use of limited empirics (Black Swans) is a rather crude tool and involves biases that can be avoided with techniques like spectral risk analysis which does not impose unrealistic distributions upon model assumptions. Yet, such a technique, which Roger has made available, is seldom used. We tend to do what we know with methods that we understand until they no longer work. One major point of presenters at this session was that many of the methods used in the past no longer work. The world has become too complex and our old models were not designed to accommodate the flow of information and speed with which decisions are made today.

Modern day viral-like communication was incorporated in a fascinating paper by Seiler et al on strategic default spreading like a disease and related to the influence and the connectivity of the agents in the market. Larry emphasized the academic and industry gap but the gap that may be more important is really between the research analysts who think they have all the right answers in hindsight, using traditional analysis assuming rational efficient markets versus those incorporating new multi-disciplinary approaches to decision making. Trying new tools, like spectral analysis, and learning new methods requires an investment that many of us have been unwilling to make.

Complexity theory, spectral risk analysis, multi-faceted models, agent based models and better data will not generate the insights desired but they may help move us in the right direction. What we can do is continue to assemble open-minded thinkers like those who participated in the Hoyt sessions at ARES and move towards integrating broader-minded thinking into our classrooms and our research. Continuing to sponsor "events" (roundtables, featured speakers, sessions, etc.) that foster these newer methodologies constitute an appropriate role for HHI and ASI.

[Contributed by Norm Miller (University of San Diego]

The 2012 Annual Development Fund Drive

The contributions to the 2012 Development Fund drive assist in the continued success of the Weimer School, the Hoyt Fellows, and other activities of HHI and $^{M}{}_{S}$ASI. Given the economic conditions and the many requests from other deserving organizations, we are particularly grateful for your generosity. Your invitation to participate will arrive in November.

Thank you!